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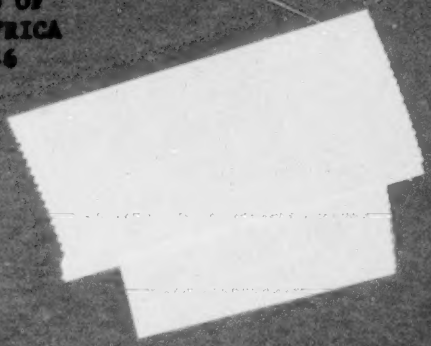

UNIDO'S PRE-INVESTMENT STUDIES PROGRAMME

Feasibility Studies*

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I. INTRODUCTION

Investment is considered the central ingredient of industrialisation. Hence, Governments are keen on implementing measures and policies within their specific development objectives that would contribute to a high rate of investment. There are many factors influencing industrial investment among which domestic capacity to handle pre-investment and investment activities may be considered crucial. In many African countries the established institutions entrusted with the responsibility to map out industrial strategy, to prepare pre-investment studies and to implement industrial project, still require assistance to undertake these tasks. Accordingly, UNIDO has oriented its technical assistance programme to respond effectively to the needs of African countries in project identification, preparation, promotion and implementation.

It is an accepted principle that pre-investment studies are an indispensable pre-requisite to the investment decision. To minimise costs, project development goes through a number of inter-related stages. It starts with project identification. A project idea is then elaborated through a number of stages referred to as the project preparation cycle, i.e. opportunity study, support or functional study, pre-feasibility study and finally, the feasibility study. It is understood that only when a completed stage of the pre-investment work shows promising results, then the next stage is attempted. Project preparation, therefore, is a complicated task requiring highly skilled specialists in a variety of fields. Notwithstanding the value of a good pre-investment study, the UNIDO experience shows that often such studies are not up to the

standard required for investment decisions. It is sometimes the case that studies prepared by equipment suppliers perhaps free of charge, do not cover all aspects of the study, and tend to concentrate on the equipment and engineering requirements. These studies cannot be useful for evaluation by development finance institutes.
There are also cases where the pre-investment study is prepared by a consulting firm for a fee, but where the economic and financial aspects are either ignored or inadequately covered, or the study does not take into account the local conditions of the country where the project will function. Therefore, improving the quality of pre-investment studies should be an important concern of Governments.

In brief, the preparation of pre-investment studies is a necessity for the following reasons: (a) to avoid wasting domestic resources; (b) to enable Governments and individuals to reach rational investment decisions; (c) to attract internal and external financing, and (d) to facilitate the project's implementation. Needless to say, the funds expended on pre-investment studies are worthwhile even if the study should show a negative viability for the project. Development finance institutions have often complained about the shortage of bankable projects which means that good quality pre-investment studies are hard to find. This anomaly deserves to be examined by those concerned in each developing country and its causes identified and measures taken to deal with them.

The question of financing pre-investment studies has to be faced every time a project idea is identified. Such financing may be provided by the Government from its own funds, or by a financial institution, either domestic or international, which would eventually co-sponsor the project, or by an external source. UNIDO succeeded in convincing at least two bilateral donors to fund pre-investment studies on a selective basis. The funds are modest, but are a good start, and there are signs that other bilateral donors may also make contributions towards this activity.

II. THE PRE-INVESTMENT STUDIES PROGRAMME

This programme at UNIDO aims at achieving the important objective of building and strengthening national capacities either individually or collectively within the framework of self-reliance. This involves:

a) Raising the level of local skills by introducing and demonstrating the methodology and requirements for preparing feasibility studies in a comprehensive and balanced manner;

b) Establishing the required institutional infrastructure both at national and regional levels which will identify, formulate, evaluate and select industrial projects in terms of their technical and financial feasibility as well as economic and social benefits and costs;

c) Assisting developing countries in making the proper decision for the implementation of a specific industrial investment by undertaking or supervising the preparation of the pre-investment study.

UNIDO responds to Government requests for assistance in this field in a variety of modes as explained below.

1. Assistance in Project Identification, Preparation and Evaluation

The methodology for project preparation and evaluation is based on the Manual for the Preparation of Industrial Feasibility Studies which was published by UNIDO in 1978 and which has received wide acceptance. The Manual is practical in approach; it offers a single format and set of procedures which could be applied to a wide spectrum of industrial projects. Industrial development centres, industrial development banks and public and private consulting firms in developing countries should benefit especially from the Manual. The numerous individual experts assigned to project planning authorities in developing countries should also be able to take advantage of it.

UNIDO has a long experience in the preparation and evaluation of pre-investment studies and will continue to respond to Government requests for such assistance. The studies supervised by UNIDO are prepared with impartiality, confidentiality and highest standards and at reasonable cost. Moreover, UNIDO tries to involve local staff in the preparation in order to acquaint them with the methodology and concepts. Also an effort is usually made to recruit experts or consulting firms from developing countries to undertake the assignment where appropriate.

2. Assistance in the Application of the Computer model for Feasibility Analysis and Reporting (COMFAR)

In view of the wide application of the Manual for the Preparation of Industrial Feasibility Studies, UNIDO has developed a Computer Model for Feasibility Analysis and Reporting (COMFAR). The purpose of the COMFAR software is to facilitate and accelerate the computations required for the preparation and evaluation of financial statements, financial ratios, and rates of return for pre-feasibility and feasibility studies. Computer power allows repeated computations to analyse sensitivity risks involved and to determine possibilities of input substitution.

In order to assist countries to obtain and apply the COMFAR software, UNIDO developed a training programme. For the success of the training programme, it is indispensable that nationals should have the requisite background including thorough knowledge of the UNIDO Manual for the preparation of Industrial Feasibility Studies. The hardware consisting of a personal computer and related accessories may be obtained through UNIDO or directly by the client.

A brochure is available giving full details of this software programme.

3. Assistance in Strengthening National Capacities in Pre-investment Studies and Investment Follow-up

The setting up of a National Industrial Advisory Service attached to the appropriate substantive Ministry is a desirable step to be taken by

each African country even though it will take some time to build its capacity fully. The Advisory Service would consist of a nucleus of local specialists who would be complemented by drawing on international experts. UNIDO has been assisting countries in Africa in setting up advisory services or project planning units which have been tailored to the country's particular needs. Such assistance usually takes the form of a team of experts composed of an Industrial Economist (Team Leader), Market and Financial Analysts, a Mechanical Engineer and other engineers whose specialisations will be determined by the specific needs of the country concerned. It is obvious that this type of assistance will enable countries to undertake pre-investment studies themselves and will provide on-the-job training and will lay the foundation for a permanent institutional mechanism.

There is a case for this kind of service to be set up on a regional basis as well as to serve a number of neighbouring countries. The regional facility could undertake consultancy and advisory services at the request of member countries for a fee and in some cases free of charge, depending on the financial ability of the beneficiary country. it could also undertake training activities and encourage the formation and strengthening of counterpart local units in the member countries with which it would maintain a working relationship aimed at decentralising certain functions and activities. An additional merit of a regional organisation is that it could serve to promote regional industrial planning and co-operation.

A brochure is available outlining details of the type of assistance to be provided by UNIDO to set up industrial advisory units.

4. Assistance to Upgrade National Capabilities in Pre-investment Studies and Investment Follow-up

The shortage of trained manpower in many African countries has been a major handicap in the preparation of pre-investment studies. This poses a serous constraint to the process of industrialisation. It has been clearly recognised that the ability of a country to raise its rate of

industrial investment depends on its capacity to design and promote viable projects. In the long run, training policies should aim at achieving self-sufficiency in meeting training requirements, preferably at the national level. For the short run, co-operation among developing countries as well as international co-operation in this domain is a necessary option.

In response to the acute needs of developing countries for upgrading of skills in the preparation of pre-investment studies, UNIDO has been organising programmes at the national, regional and inter-regional levels during the past 15 years. These programmes are designed to provide economists and engineers in a relatively short time (from 2 to 8 weeks) with the necessary knowledge, both theoretical and practical, in advanced methods and techniques of project preparation, evaluation, financing and promotion.

A brochure is available outling the seminar programme and giving details about the lectures, duration and contents.

5. Assistance in Project Implementation

Upon completion of a feasibility study, a decision to implement a viable project would entail the search for a financing institution and partners, the negotiations concerning technology and management contracts, marketing arrangemnts, tendering procedures and engineering design and supervision contracts, etc. UNIDO can provide technical assistance in all these arrangements.

6. Publications

The following publications are available for distribution to member countries upon request:

- Manual for the Preparation of Industrial Feasibility Studies;
  covers project preparation and financial evaluation (ID/206), available in Chinese, Czech, Dahri, English, French, German, Hungarian, Russian, Spanish and Turkish. Burmese, Polish and Arabic under preparation.

- Guidelines for Project Evaluation (ID/SER.H/2) and Guide to Practical Project Appraisal (ID/SER.H/3) deal with socio-economic evaluation, available in English, French Spanish.

- Manual for Evaluation of Industrial Projects (ID/244) presents a methodlogy based on national value-added concepts and is applicable to all developing counties. Available in English, French and Spanish.

III. RECOMMENDATIONS

A. For UNIDO Action

Financing has always been a factor limiting both the quantity and quality of pre-investment studies. The Meeting may consider requesting UNIDO to set up a special purpose fund to conduct pre-investment studies. Developed countries would be urged to contribute convertible currencies to the fund and developing countries would contribute local currencies to meet local costs. Only when this fund receives international support will it operate on firm grounds, thus contributing effectively to the constant flow of viable projects which could be promoted and implemented. The Meeting could decide on a target level for this fund, taking into account the dimensions of the work to be done. The contribution of African countries to this fund, even though in local currencies, will be an important factor in the success of the fund.

B. For Country Action or Regional Action

1. Countries should take action to strengthen and/or establish industrial advisory services which will be entrusted with the task of identifying, preparing, evaluating, promoting and implementing projects. The required local staffing for the advisory service may be strengthened by drawing on foreign expertise in the initial years of operation.

The advisory service should establish co-operation arrangements with the local industrial community, with national and regional institutes having similar objectives, including development finance institutions and with international organisations, such as the World Bank, UNIDO and UNDP.

2. Countries should strive to upgrade local skills in this field through organising ad hoc training programmes and through the strengthening of local training institutes, with the assistance of UNIDO.